BEFORE THE

STATE OF CONNECTICUT

JOINT COMMITTEE ON ENERGY AND TECHNOLOGY

March 19, 2013

Testimony of Daniel Allegretti

For

Exelon Corporation

On

Substitute Bill No. 1138 (LCO 4767)

Members of the committee, thank you for the opportunity to present this testimony today. My name is Daniel Allegretti and I am a Vice President for State Government Affairs with Exelon Corporation ("Exelon"). Exelon opposes Proposed Substitute Bill No. 1138 and encourages the Committee not to pass the measure.

Exelon

By way of introduction, Exelon is a Fortune One Hundred company, headquartered in Chicago, Illinois, with operations and business activities in 47 states, the District of Columbia and Canada. Exelon owns Commonwealth Edison Company, the Baltimore Gas and Electric Company and PECO Energy Company, which combined own electric transmission and distribution systems that deliver electricity to approximately 6.6 million customers. Here in Connecticut, we are best known through our retail brand, Constellation NewEnergy ("Constellation"), which provides electricity directly to thousands of Connecticut businesses and residents and to over a million customers nationwide. Exelon is also the largest competitive power generator in the U.S., with approximately 35,000 megawatts of owned capacity comprising one of the nation's cleanest and lowest-cost power generation fleets, that includes over 3000 megawatts here in the New England region. Exelon is a developer of distributed solar generation projects in conjunction with our Constellation New Energy retail electric business and is actively pursuing projects here in Connecticut and across the U.S.

Long Term Contracts

New Sections 16-245a (h) and (i) of the bill authorize the Commissioner of the Department of Energy and Environmental Protection and the Procurement Manager to direct the electric distribution companies to solicit and enter into 20 year power purchase agreements. Specifically, the distribution companies may be directed to purchase power from renewable resource owners to comply with all or part of the renewable portfolio standard (“RPS”) obligations of the electric suppliers and electric distribution companies. These provisions will impose unnecessary risks on consumers, including the exposure large amounts of stranded investment if renewable generation costs continue to decline over the 20 year period, will disrupt the retail electric market and will undermine the effectiveness of the RPS.

First, it should be understood that electric distribution companies have no long term need or use for the power that would be purchased. Today only about 30 percent of the electricity consumed in Connecticut is sold by the electric distribution companies to retail customers through Standard Service. This quantity is decreasing every year and various pending measures, such as the municipal aggregation pilot program and the Governor's budget proposal, will inevitably accelerate the migration of customers away from Standard Service to third party electric suppliers during the next several years. Under this bill, over time electric distribution companies will find themselves buying power for which they have no customers, leaving them no option but to resell it immediately into the wholesale market, potentially at a loss. This may serve the financing needs of resource developers but it does not serve consumers.

Second, the bill undermines the inherent consumer protections that an RPS affords. With an RPS long term renewable resource investment risk is borne by project developers and their investors. Consumers are insulated from poor investment decisions through the ability to choose their own supplier. Locking consumers into long-term contracts based on projected prices could generate the same negative consequences that arose from the Public Utility Regulatory Policies Act of 1978 ("PURPA"), which should be avoided. Under PURPA, utilities were required to enter into long-term contracts with the express intent to incent the development of renewable energy technologies and cogeneration. These requirements resulted in consumers being locked into paying billions of dollars above market prices for energy under PURPA contracts. Requiring electric distribution companies to procure Class I renewable energy through long-term contracts and recover those costs from all consumers in order to incent development of renewable generation creates the same risks of repeating the PURPA debacle.

If Constellation's renewable power supply is too expensive our customers will switch to our competitors. Under an RPS suppliers are able to manage risk by negotiating with power producers and assembling their own cost-effective portfolio of supply, tailored to meet the needs of their customers at the lowest available cost. Customers under an RPS are also protected by the alternate compliance payment ("ACP") mechanism. The ACP functions as a *de facto* price cap and represents the price point at which the Legislature has decided that the costs of meeting Connecticut's target renewable goals exceed the benefits to customers and that consumers should at that point be shielded from paying any greater amount. If Sections (h) and (i) are adopted this critical consumer protection feature will be circumvented and consumers could face an uncapped liability for more than 20 years. In 2012, the ACP costs for full compliance with the State's Class I and Class II targets was more than $150 million in above market costs. This is not a trivial amount and customers should be aware that this cost could be much higher without the benefit of the ACP.

Third, the bill creates enormous uncertainty for retail electric suppliers with regard to how the long term procurement will be used to offset their RPS obligations. Suppliers are left not knowing how much renewable energy they need to secure to meet the RPS obligations and how much will be procured for their customers through the long term contracts. Without advance clarity, transparency and an adjustment methodology that is fair and non-discriminatory to all customers and suppliers the procurement will almost certainly inject a large measure of commercial costs and havoc in the retail electric market.

Moving to a central, long term state-run procurement strips away important protections that exist with an RPS and transfers investment risk from project developers to captive distribution ratepayers. It gives consumers less control over their energy costs and robs suppliers of the capabilities and incentives to compete with one another and help consumers manage those costs. It undermines the value of a competitive retail electric market and marks the return to a more regulated command and control approach.

A better way to meet Connecticut's renewable resource development goals is to stick with the RPS which is a more efficient, least-cost, competition-friendly and consumer-friendly approach. To the extent that additional financing support is required by renewable resource developers the Connecticut Energy Finance Authority has already been created to fill this need. In short, long term contracts put all risks on consumers and are neither a preferred nor a necessary policy measure for Connecticut to achieve its renewable energy goals.

Canadian Hydropower

The bill modifies the current RPS Class I category by adding a new subtier, known as "Class I contracted tier renewable energy source." This subtier includes all Class I eligible resources, as well as large scale hydropower from parts of eastern Canada not currently eligible. The bill also makes changes to the RPS percentages.

Allowing a broader category of resources to qualify for Class I compliance purposes should lower the cost of electricity to Connecticut consumers. Unfortunately, the expansion of eligibility under this bill applies only to a very small number of generation owners located in eastern Canada. This will result in little, if any, significant increase in competition to supply Class I resources and likely will not produce any meaningful reduction in costs to consumers.

A better approach would be to expand eligibility to add not only resources in certain Canadian provinces to the north but the PJM wholesale power trading region to the south as well. This would allow domestic large scale hydropower facilities to compete with facilities in Quebec and Labrador, creating more competitive prices for the newly created Class I contracted tier resources. In fact inclusion of the PJM region as a source of eligible renewable power is already included in another bill before you, Raised Bill 6532 (LCO 3849), and I encourage you to review the testimony Exelon submitted in connection with that bill as it was heard on March 7, of this year. The PJM region has over 8,000 MWs of hydropower facilities that could compete to provide domestic renewable energy credits. In addition, PJM independently manages a Generation Attributes Tracking System ("GATS")[1] that would provide the State with a transparent, auditable trail so the full environmental attribute of this zero carbon source would be realized by Connecticut.

The bill also includes an arbitrary limitation which excludes hydropower resources developed prior to 2003. While this may again benefit particular resources, it is unnecessarily discriminatory, limits hydropower resource competition for no discernible reason and will lead to higher costs for Connecticut consumers. For example, Exelon would be unable to compete with Canadian resources by offering clean power benefits from its 570 megawatt Conowingo Dam hydropower plant in Maryland. We therefore urge the Committee to consider allowing all existing hydropower resources within a reasonable proximity to compete within the new Class I contracted resources tier.

Other Modifications

[1] http://www.pjm-eis.com/getting-started/about-GATS.aspx

Finally, the bill makes a number of other modifications to the RPS that warrant some additional consideration by the Committee.

With regard to Class III resources, the bill removes from eligibility certain resources that receive funds from ratepayers or proceeds from the auction of regional greenhouse gas emission allowances. This narrowing of eligibility makes sense and will help to address the oversupply of Class III certificates currently for sale in the market. That market has been functioning poorly for some time now due to the combination of robust supply and a statutory price floor that prohibits the sale or purchase of Class III certificates at any negotiated price less that $10 each. This price floor creates a game of "musical chairs" in which sellers rush to find buyers at the floor price before suppliers have procured all of the certificates required for compliance. Any certificates left unsold "when the music stops" end up simply being discarded. A more rational market would allow prices to fall until only the most cost effective supply remains in the market to meet the demand. Allowing prices to fall causes development to slow until demand catches up. Lower prices for suppliers also mean lower prices for consumers. Finally, although Exelon complies at all times with the price floor requirement we are unaware of any effective mechanism for enforcing it and cannot speak for the conduct of others. For all these reasons we urge the Committee in considering any changes to the RPS to include an elimination of the Class III certificate price floor.

Lastly, the bill introduces the innovative concept of requiring certain biomass facilities to procure regional greenhouse gas emission allowances as a condition of qualification.

While Exelon does not support the Proposed Amendment as a whole, we do believe this aspect of it is a creative and market-based approach to meeting environmental policy goals at least cost and we encourage the Committee to adopt this provision in more appropriate legislation.

Thank you.